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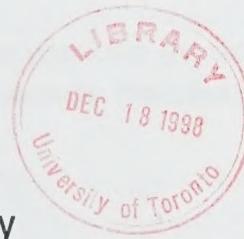
The Honourable Ernie Eves, Q.C.
Minister of Finance

on the

1998 Ontario Economic Outlook and Fiscal Review

November 5, 1998

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Introduction

I am pleased to provide the Legislature and the people of Ontario with a report on the province's finances and the state of the Ontario economy.

Over the last three years, Ontarians have worked together to get this province back on track.

This Government has cut taxes, reduced the deficit, restored sound fiscal management practices, refocused core spending and reinvented the way government works.

The changes that the Government has needed to make since 1995 have not always been easy. The actions that the Government has taken have positioned Ontario to continue to grow and to create jobs.

Creating Jobs

The Record to Date

Over the last three years, economic growth in Ontario has become both stronger and more broadly based.

Since the 1995 Speech from the Throne, the Ontario economy has added 408,000 net new jobs. This is over 48 per cent of the jobs created in Canada during this period, even though Ontario accounts for less than 38 per cent of Canada's population.

Ontario's unemployment rate is now 7.1 per cent, down from 8.9 per cent when this Government took office, and well below the national unemployment rate of 8.3 per cent.

Consumer spending has increased by 3.6 per cent per year over the last three years, triple the rate of growth in the first half of the decade. Business investment has increased by 7.3 per cent per year.

Ontario Economic Expansion Continues

Ontario's economic momentum and sound fundamentals have resulted in continued strong growth in 1998.

So far this year,

- ◆ Ontario's international exports are up 6.7 per cent.
- ◆ Consumer spending is up 5.6 per cent. The second quarter alone saw a 2.3 per cent increase—the strongest quarterly gain in 12 years.
- ◆ Machinery and equipment investment is up 6.8 per cent.
- ◆ Commercial and industrial building permits are up 33 per cent.
- ◆ Auto sales have increased by 7.4 per cent and for the year as a whole are expected to be the best in this decade.

By September of this year, the Ontario economy had created 195,000 net new jobs. In that month alone, over 62,000 new jobs were created—over 85 per cent of the national total.

In the 1998 Budget, the Province presented its fiscal plan based on the cautious assumption of real growth of 3.5 per cent in 1998.

I am pleased to report that the Government now estimates that the economy will achieve real growth of at least 3.7 per cent in 1998. This is still a cautious and prudent estimate. On average, private-sector forecasters are expecting real economic growth of four per cent in Ontario this year.

World Economic Events

The late spring and summer marked a period of volatility in international financial markets, stemming from problems in Southeast Asia, Russia and elsewhere.

The impact of these events spilled over into North American stock markets, including the Toronto Stock Exchange.

The Bank of Canada also raised interest rates by one percentage point, to stop the slide in the Canadian dollar resulting from declining commodity prices.

In response, private-sector forecasters reduced their forecasts for many of the world's economies.

The range of forecasts is wide, reflecting uncertainty about the world financial situation. For Ontario, the most recent private-sector forecasts range from 3.0 per cent to 2.2 per cent real GDP growth in 1999.

New Initiatives

More recently, the U.S. Federal Reserve took unexpected, firm action to maintain the high level of performance of the U.S. economy, by lowering interest rates.

Interest rates in Canada have since moved down as well, and stock markets have begun to recover.

International agencies such as the International Monetary Fund, the World Bank and the G-7 have also demonstrated their capacity to ensure that problems in individual countries do not impair the operation of the global financial system.

These are all positive and encouraging signals.

Ontario Well Positioned Globally

The Ontario economy is well positioned to weather the impact of recent world economic events.

Raw material prices have fallen sharply, but the primary sector accounts for just two per cent of Ontario's Gross Domestic Product.

Ontario's exports to Asia represent three per cent of total exports, equivalent to only 1.3 per cent of GDP.

The United States accounts for 90 per cent of Ontario's international exports, equal to about 40 per cent of Ontario's GDP.

Private-sector forecasters expect continuing high levels of domestic demand in the United States, and economic growth in excess of two per cent in 1999.

Ontario will also benefit from lower U.S. interest rates.

Over the next few years, private-sector forecasters expect Ontario to achieve greater economic growth than the rest of Canada or any of the G-7 major industrial countries, even after world economic events are taken into account.

Taking Action to Stimulate Growth

Governments can support economic expansion by cutting taxes.

All provinces have agreed with Ontario's call for the federal government to reduce EI premiums to \$2.20 per \$100 of insurable earnings and to eliminate EI premiums for youth. These actions would create up to 200,000 jobs across Canada. They would be of particular benefit to low-income workers, youth and small businesses.

There will be a cumulative surplus in the EI Account in excess of \$19 billion by the end of 1998. Contributions from working people and employers in Ontario account for about two-thirds of this amount.

Ontario expects that the federal government will fulfil its promise and take a balanced approach to the use of its fiscal surplus. Restoration of funding for health care and other social programs under the Canada Health and Social Transfer, EI premium cuts and debt reduction are all achievable with a phased approach.

Tax Cuts Work

One of the reasons that Ontario's growth has been strong is the tax cuts implemented by this Government. Since our Government was elected, we have announced 66 tax cuts.

Cutting income taxes helps to create jobs, by leaving more money in the pockets of hard-working taxpayers to spend for the benefit of their families—spending that fuels business investment and job growth.

In July of this year—six months ahead of schedule—the Government implemented the final phase of its 30 per cent personal income tax cut. This means that more than 90 per cent of Ontario taxpayers are receiving a cut in Ontario income tax of at least 30 per cent.

Almost \$3 billion, or 64 per cent, of this tax reduction goes to the nearly three million middle-income taxpayers in Ontario who earn between \$25,000 and \$75,000 per year. Ontarians with modest incomes get the largest percentage reductions.

Helping Ontario Small Businesses Expand

This year, Ontario accelerated its three-year plan to exempt the first \$400,000 of private-sector payrolls from the Employer Health Tax. Small businesses that no longer pay the EHT are better able to hire and expand. This means more jobs for Ontarians.

In the 1998 Budget, our Government announced that it will stimulate job growth further by cutting the corporations tax on small businesses in half over the next eight years to 4.75 per cent—the lowest rate in Canada.

In my Budget I also announced that the Government will cut business education taxes in municipalities where these tax rates are above the provincial average, starting with a \$64 million cut this calendar year. When fully implemented in eight years, this will amount to a reduction in business education taxes of over \$500 million, from current levels.

Recently, the Province stepped in to ensure that municipalities implement Ontario's new, up-to-date property tax system in a way that does not hit Ontario small businesses with unmanageable tax increases.

No business taxpayer will face a tax increase as a result of property tax reform of more than 10 per cent in 1998 and a further five per cent in each of 1999 and 2000.

Investing in the Jobs of the Future

The economies that succeed in the future will be those with a culture of innovation, a skilled and flexible workforce, and an infrastructure that supports growth and competitiveness. These attributes will reinforce a positive business climate, resulting in jobs and prosperity.

Ontario has made substantial progress toward meeting these objectives. Our Government has promoted research and development and innovation and technology transfer through the R&D Challenge Fund and a broad range of tax measures. We have helped prepare people for tomorrow's work by investing in strategic skills training. We have created an infrastructure for growth and competitiveness by investing in Ontario's highways, including the Province's northern highway network.

The Ontario Jobs and Investment Board, composed of some of the best and brightest leaders in business and the community, will build on this progress to ensure that Ontario meets the challenge of the new economy.

Early in 1999, the Board will advise the Government on an economic strategy for the new millennium—a road map to help us build a stronger economy.

Ensuring Fiscal Health

On Target to Balance the Budget

In the Budget last May, I announced a 1998-99 deficit target of \$4.2 billion, \$600 million lower than the Balanced Budget Plan target of \$4.8 billion for this year.

With more than half the year gone, I am pleased to announce that, based on the Province's improved revenue performance this year, the \$650 million reserve will not be needed. This reduces the deficit outlook to \$3.6 billion—\$1.2 billion lower than the original Balanced Budget Plan target for 1998-99, and \$7.7 billion lower than the \$11.3 billion potential deficit in 1995-96.

This Government has already exceeded its deficit-reduction targets three years in a row—this year will make four in a row.

We have done so despite deep federal cuts of \$2.8 billion to Ontario under the Canada Health and Social Transfer since 1995-96. We have surpassed our deficit targets while ensuring that spending on health services for Ontarians is \$1.3 billion higher in 1998-99 than in 1995-96.

With continued fiscal prudence the Government will eliminate the deficit by 2000-01, as planned. The Ontario Balanced Budget Plan will ensure that this objective is achieved.

Entrenching the Gains

This Government has made tremendous progress in restoring Ontario's fiscal health. But the job is not finished.

The costs of running deficits and accumulating debt are real. And they have a real human face.

The legacy of the lack of fiscal discipline still haunts us. Ontario is spending more than \$17,000 per minute just to pay the interest on the public debt. At \$9.2 billion, Public Debt Interest is almost half of what the Province will spend on important health care services such as hospitals, doctors and long-term care.

To ensure that the Government is able to strengthen the programs and services that Ontarians value most while meeting the economic challenges of the future, the commitment to fiscal responsibility must continue.

Ontarians want to meet the needs of the Province's growing and aging population and build on the fiscal gains we've made in the past three years. They want to be protected from irresponsible deficits and tax increases in the future, and we will take the necessary steps to ensure that this happens.

With the Province's finances back on track, and a firm commitment to entrench the gains, we will ensure that Ontario is one of the best places in which to live, work and raise a family.

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